

# K-12 Education Issues In the 2006-07 Budget

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LEGISLATIVE ANALYST'S OFFICE





## LAO Estimate of 2006-07 Proposition 98 Baseline Cost Is Higher

<b>2006-07 Proposition 98 Baseline Adjustments Governor's Budget and LAO Alternative</b>				
<i>(Dollars in Millions)</i>				
	<b>Governor's Budget</b>	<b>LAO Alternative</b>	<b>Difference</b>	
			<b>Amount</b>	<b>Percent</b>
<b>Baseline Adjustments</b>				
<b>Cost of living adjustment</b>	\$2,566.8	\$2,873.7	\$306.9	12.0%
<b>Attendance</b>	316.0	323.5	7.5	2.4
<b>Mandates</b>	133.8	173.5	39.7	29.7
<b>Other</b>	-96.0	-96.0	—	—
<b>Subtotal</b>	\$2,919.7	\$3,274.7	\$355.0	12.2%
<b>CAHSEE<sup>a</sup> reauthorization</b>	29.0	29.0	—	—
<b>Totals</b>	\$2,948.7	\$3,293.7	\$345.0	11.7%

<sup>a</sup> California High School Exit Examination.

- We estimate that an additional \$359 million is needed to fully fund school district and community college baseline budgets.
- Most of this increase is due to our higher projected cost-of-living adjustment—5.8 percent compared to the budget's proposed 5.2 percent.
- Attendance costs also will be higher. For K-12 education, we project that declining enrollment costs will be \$75 million higher than proposed in the budget. This is partially offset by a reduction for community colleges to reflect the growth in the underlying population (rather than the Governor's budget 3 percent growth adjustment).
- We also add \$39.4 million to fully fund ongoing K-12 mandates in 2006-07.



## Option 1: Use One-Time Funds To Pay for Past Mandates

<b>Status of the Education Credit Card Under the Governor's Budget Proposal</b>				
<i>(in Millions)</i>				
	2003-04	2004-05	2005-06	2006-07
<b>Deferments</b>				
K-12	\$1,897	\$1,883	\$1,188	\$1,168
Community colleges	299	299	299	299
<b>Mandates</b>				
K-12	\$848	\$1,896	\$1,234	\$1,119
Community colleges	66	73	91	169
K-12 revenue limit deficit	883	646	399	169
<b>Totals</b>	<b>\$3,181</b>	<b>\$3,098</b>	<b>\$2,928</b>	<b>\$2,829</b>

- If the Legislature wants to provide more than our baseline adjustments, it could retire existing “settle-up” obligations and pay off most prior-year K-14 mandate claims.
- Because these obligations are “one-time” in nature, this option would not increase the state’s structural budget gap.
- It would also use funds to improve the state’s financial situation by retiring the settle-up obligation sooner than the current 10-year plan.
- Paying districts for past mandate claims would also provide a large infusion of one-time funds that districts could use to address pressing fiscal issues.



## Option 2: Limit Discretionary Spending, Address K-12 Fiscal Condition

<b>LAO Recommendations for the Use of 2006-07 Discretionary Funds in K-12</b>	
<i>(in Millions)</i>	
	Amount
<b>Deny Governor's Proposals</b>	
Proposition 49 after-school	\$426.2
K-12 revenue limit increase	458.2
Recruitment and retention	189.0
Arts and music	189.0
Physical education	86.0
Beginning teacher support	86.0
Digital classroom grants	26.0
Fresh Start	18.2
<b>Subtotal</b>	<b>\$1,226.8</b>
<b>LAO Proposed Uses of Funds</b>	
Reduce Proposition 88 spending	\$426.2
Fiscal solvency block grant	411.7
K-12 Baseline increases	387.7
<b>Subtotal</b>	<b>\$1,226.8</b>

- If the Legislature wants to provide additional ongoing funds above the baseline level, it could take an approach that recognizes the need to address state and district fiscal conditions.
- This option redirects the \$1.2 billion in discretionary funds proposed in the budget for three purposes.
- \$388 million would fully fund the K-12 baseline budget (would apply to all options).
- \$426 million would return to the General Fund to reduce the structural budget gap and increase the state's fiscal flexibility.
- \$412 million would be dedicated to our proposed "Fiscal Solvency Block Grant."



## **Fiscal Solvency Block Grant LAO Proposal for 2006-07**

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- Actions taken during lean budget years (2002-03 and 2003-04) combined with declining enrollment have left many districts on shaky financial ground.
- More than 60 percent of districts face the challenge of paying for retiree health benefits—although the scope of district liabilities is not yet clear.
- Recommendation: Rather than use discretionary funds for new or expanded programs, we recommend using \$412 million for a fiscal solvency block grant.
- Funds would be distributed on a per-pupil basis for five years, when it would be folded into base revenue limits.
- The block grant would establish priorities for the use of funds.
  1. Districts would use funds to address pressing fiscal issues and begin budgeting for the “normal” cost of retiree health benefits.
  2. One-half of any remaining funds could be used for any short-term costs created by declining enrollment.
  3. The other half of remaining funds would be used to begin reducing district liabilities for retiree health benefits for current employees and retirees.



## K-12 Education Mandates

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- Variety of K-12 mandate issues, including:
  - Lengthy and legalistic process for identifying new mandates;
  - State and district concerns about appropriate funding levels for mandates;
  - Recent audit disallowances due to insufficient documentation.
- Recommendation: Establish a K-12 mandates block grant, which would provide about \$25 per-ADA to reimburse districts for existing mandates in 2006-07.
- Districts choosing this form of reimbursement would not submit any claims or be audited for costs. They could be audited to determine whether all mandates were being accomplished.
- Districts could also choose to continue the current claims process for each individual mandate.
- Recommendation: Settle all Standardized Testing and Reporting (STAR) mandate issues by paying districts for the administrative costs of tests that are not required under federal law.
- For past STAR mandate costs, our proposal would redirect \$104 million, which is about half the amount claimed by districts.
- For 2006-07 costs, we recommend providing \$11.2 million more than proposed for these costs in the Governor's budget.



## Repeal Proposition 49— After School Programs

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- We recommend repealing Proposition 49 because:
  - It triggers an autopilot augmentation even though the state is facing a structural budget gap of billion of dollars.
  - The additional spending on after school program is a lower budget priority than protecting districts base education programs.
  - Existing state and federal after school funds are going unused.
  
- Proposition 49 has several legal uncertainties
  - Specific provision of Proposition 49 can only be changed by returning to the voters.
  - What “furthers the purpose“ of the initiative is unclear.
  - Interaction of the measure with Proposition 98 is an area of disagreement.
  
- Funding for after school programs must balance tradeoffs between focusing on student safety or academic achievement. Also a tradeoff between targeting schools with more at risk students or providing program at all schools.
  
- We believe that school districts are in the best position to balance these tradeoffs, and recommend that Proposition 49 funds be block granted to districts on a weighted pupil formula that provide higher funding levels to districts serving more at risk students.